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UNCLAS SECTION 01 OF 03 ANKARA 004226

SIPDIS

SENSITIVE

DEPT FOR EB/CBA FOR FRANK MERMOUD, EUR/SE, and EB/OMA
USTR FOR LERRION
TREASURY FOR CPLANTIER AND MMILLS
USDOC/ITA/MAC/DAVID DEFALCO
DEPT PASS EXIM FOR MARGARET KOSTIC

E.O. 12958: N/A

TAGS: [EINV](#) [BEXP](#) [EFIN](#) [TU](#)

SUBJECT: PRIVATIZATION AUTHORITY CONFIDENT ABOUT TURK
TELECOM PRIVATIZATION

Ref: A. 04 ANKARA 6673

[B](#). 05 ANKARA 446

[C](#). 05 ANKARA 2159

[D](#). 05 ANKARA 2812

[E](#). 05 ANKARA 3845

[1](#)1. (SBU) Summary: The Turkish Privatization Authority (PA) is confident that the privatization of Turk Telekom will be finalized after Cabinet approval in the late fall, despite initial confusion and allegations following announcement of the Oger consortium winning the tender on July 1. The PA is cautiously optimistic that the tender results will survive challenges by labor unions and also by the second place bidder. The Competition Authority approved the sale on July [2](#)1. The improved prospects for the Turk Telekom privatization is a good sign for other privatizations, and could represent a turning point after a series of failed privatizations of large state companies. It would also represent a huge infusion of badly-needed Foreign Direct Investment. End Summary.

And the Winner is...

[2](#)2. (SBU) The Oger Group-Telecom Italia (TI) consortium won the Turk Telekom (TT) tender bid July 1(Ref E). TI already has a significant interest in Avea, the number two mobile company. The consortium offered \$6.55bn for 55 percent of TT, valuing the company at \$11.9bn. The offer price is well above the PA's speculated price range per the local press (\$8.2bn-\$11bn) and the analysts' estimate range (\$7bn-\$9bn). The transaction will be the largest single ticket FDI Turkey has ever attracted, roughly doubling the pending FDI record of \$3.3bn from the Turkcell sale to Russian Alfa Group announced this year (contested by Teliasonera, whose offer Alfa trumped). The success to date in the TT tender process is evidence of the Turkish government's commitment to the privatization program and offers encouragement for the upcoming Tupras and Erdemir privatisations as well as the sale of Turkey's second GSM operator, Telsim from the Savings Deposit Guarantee Fund's (SDIF) portfolio. Assuming that all necessary approvals take place without any legal difficulties, the winning consortium will make an up-front payment of \$1.31bn in 2005 and the remaining in five equal payments with Libor+2.5% interest p.a. For purposes of comparison, the \$1.31 bn payment, if it happens, is not much less than the total FDI inflow to Turkey in 2004 of \$1.6 billion. The PA expects the transaction to be completed by the end of 2005.

Positive Reaction

[3](#)3. (SBU) The Turkish market perceived the sale to be very positive on various grounds: First, the \$1.3bn inflow this year is expected to result in a minimum total FDI of \$5bn in 2005 and a floor of roughly \$1.1bn annually in the next 5 years. The FDI will provide a stable, long-term source of financing for the widening current account deficit, and the proceeds of the sale will help lower public sector indebtedness. Second, the buyer will need to invest substantially in the company's infrastructure and technology over the coming years, leading to further upside in FDI, and better telecommunications services. Oger is already talking to the press about new technologies it will bring and new services it will offer. Third, the completion of the auction confirms the government's commitment to the privatization program, which had been greeted with some skepticism by the investor community. Fourth, the Turk Telekom sale will lend positive momentum to the upcoming big-ticket privatization items such as the state refinery-Tupras, the steel company- Erdemir, as well as Turkey's

second largest GSM operator- TELSİM.

Nay-Sayers and confusion

14. (SBU) Because of past resistance to privatization from labor unions, opposition politicians and, reportedly, the military, the TT tender was expected to receive criticism and also to be challenged in the courts. The PA had taken care to seek to "inoculate" the tender from law suits against previous (most failed) privatizations. Gunden Peker Cinar, the working-level PA official with lead responsibility for the TT transaction told us PA had brainstormed extensively with its lawyers to ensure there were no flaws in the tender document that a court could use to invalidate the process, as happened with the Tupras privatization in 2004. A few lawsuits seeking tender cancellation have already being filed (Habersen, a union which has members on TT's payroll was the first to file such a lawsuit). The opposition party announced that they would also file a lawsuit since TT was priced much more cheaply than what it claimed as a "real" value of \$30 billion. Note: Despite this typically over-the-top criticism by the opposition, the fact that the bid valued TT well above the PA's and analysts' valuation has undercut the argument that the GOT is selling too cheaply. This line of argument is a recurring feature of the public debate over privatization in Turkey, and it was the reason the Tekel tobacco tender was cancelled in 2003. The fact that the PA seems to have squeezed every last dollar-on live TV no less--out of a process with multiple, well-heeled bidders makes it far less likely this "fire sale" argument will kill the deal. End Note.

15. (SBU) Transportation Minister Binali Yildirim triggered confusion on July 3 when he announced that the tender was not over, and the second short-listed consortium led by Calik-Etisalat of UAE could still win. Encouraged by Yildirim's remarks, the Etisalat Group subsequently announced they would sacrifice their 5 percent cash payment discount, and could sign an agreement with Telecom Italia.

Clear Way Forward

16. (SBU) In July 4 and 6 press statements, PA President Metin Kilci sought to mitigate the resulting confusion, by reaffirming the tender result and clarifying next steps in the process. He noted that the PA short listed the two groups with the highest offers on July 1, 2005, and the Oger Telecom Group offered the highest auction price in the bargaining. According to Kilci, The PA tender committee met on July 4, 2005 and decided to submit both offers to the Competition Authority. On July 21, the Competition Authority announced it had approved the sale to Oger. The next step will be submission of the transaction to the Council of Ministers for approval. At his press conference, Kilci said that, if the agreement cannot be finalized with the highest bidder, then the second bidder would be considered. The new owner of TT will sign a concession agreement with the Telecom Authority following the Cabinet approval of the tender. The Telecom Authority will submit the concession agreement to Danistay (Council of State) for opinion, since concessions relate to the Constitution. Danistay's opinion, at this stage, will not be binding and cannot change the sales decision or the concession contract terms.

17. (SBU) Kilci also rejected allegations that the Telecom Authority had granted a "free-of-charge third generation frequency license to TT. (The tender document requires a frequency arrangement to extend telecom services to even small villages in Turkey. This is actually a burden, not a privilege.) He reaffirmed that tender price was a key, but not sole, criterion.

18. (SBU) PA official Cinar told us privately that unless the winning Group failed to fulfill its tender commitments, it was not possible for the PA to award TT to the second group. Cinar suggested that Minister Yildirim had not been fully briefed when he had made his initial comments to the press. Note: We suspect Yildirim's outburst may in part reflect his irritation that Finance Minister Unakitan, rather than Yildirim (who has responsibility for telecoms) had the lead on the privatization. Yildirim has kept quiet on the TT privatization over since his July 3 outburst. End Note. Cinar said that bidding companies were evaluated first on their business plans (company's strategic position, future strategy, financial performance, financial plan and HR plans). If the groups' respective bids met passed muster in these areas, the groups were pre-qualified, with the final round of competition based on price alone.

19. (SBU) Cinar also said the state's "golden share" will only be exercised in the cases where national interest and security can become an issue. Cinar also revealed that

when the whole process is finalized Oger Telecom will own 99 percent of the purchased shares; Saudi Oger will own 1 percent and Italian Telecom will own 20 percent of the Oger telecom shares in Turk Telecom. The consortium applied to the PA on June 17 to change their partnership structure to rename Oger Telecom as a Joint Venture Group.

10. (SBU) Comment: In the face of some skepticism and two previous failures, the likelihood that the GOT and PA may be successful in selling their state-owned telecom company has substantially increased. If Turkey can bring the transaction to fruition, it will open the way for future privatizations, improve telecoms services, and boost investor confidence not only for privatizations, but for Turkey as a whole. It remains to be seen whether it will facilitate liberalization, or replace a dominant public company with a private one. Some industry participants and observers are worried whether the Telecom Regulatory Authority (and Competition Authority) has the strength, independence, and expertise to facilitate and enforce liberalization (and competition) steps and rulings.
End Comment.

McElDowney